Nasrullah Rahmat

Nasrullah Rahmat is an Afghan trader and manufacturer based in Karachi who has been introduced to the project through several unconnected sources. (See Call Reports 29/08 and 04/09). Nasrullah would finance the importation by opening an international, irrevocable letter of credit through a New York bank to a fertilizer dealer in the USA or on the world market. Morteza Farzaneh, VP Regional Private Banking at Bankers Trust Co., New York, said that Bankers Trust would offer itself as opening and confirming bank. Nasrullah also gave Bank of New York, Barclays, and Chase as references where he has accounts. Opening a letter of credit overseas avoids the necessity of an import license from Pakistan, bypassing foreign exchange controls because there is no conversion of Rupees to Dollars.

Although Nasrullah could take DAI/AID out of the official procurement, he said that the project would need to remain involved on several levels once the fertilizer arrived in Karachi. His difficulties hinge on import licenses, sales of a restricted, subsidized product, and inventory risk.

First, he would need the clearance to move it to the border. Clearance would be supplied by the project under its "humanitarian aid" protocol with Pakistan. Then, he would need assistance moving the fertilizer through customs and transporting it to the border.

Since DAI must price DAP at the official Pakistani price, DAI would need to compensate Nasrullah's company for the difference between the official Pakistani price and the all-in cost for Nasrullah at the border. The simple way to handle this is to extrapolate from the rebate system--which seems to be working--and reimburse him based on an agreed upon formula taking into account CIF invoice price, and adjusting for transport, bank fees, trade margins, etc.

Reimbursing at the point of delivery safeguards the project while Nasrullah is protected from risks of wide swings in official prices or a fall in available prices on the black market. For instance, UNDP is rumored to be planning for a transfer of seeds and fertilizer into the project area to be distributed free to the poor. Leakage of these grant commodities on to the market will dampen demand for the project's DAP.

Nasrullah replied to our Request for Proposal with a letter to Richard Smith dated 10 Sept. 90. His initial order would be 10,000M/Tons of DAP. To close the transaction, he requested assistance from the project in three areas: transit permits, storage, and a price floor guarantee.

Comments on Trader Selection

- This businessman has the capacity to be a long-term player after normalization of relations with Afghanistan. In addition, he has the reputation as a philanthropist.

- Nasrullah is already importing hides from Afghanistan and selling leatherwear on the international market in significant volume.

- PSA would offer marketing training to Nasrullah's people in Afghanistan to increase volume of use. He would be introduced to ADT personnel in rural bazaars.

- The project could offer to arrange visits with Nasrullah and the commodity departments of major US banks, and the marketing divisions of American fertilizer distributors.

Fertilizer Action Plan

1. PSA will draft a proposal to submit to AID Rep to request extension of transit permits for over-land transportation.

2. USAID Islamabad will present a proposal to GOP to secure over-land transit permits of inspected and sealed DAP from the port of Karachi to PSA depots near the border.

3. PSA discusses inspection and control contract with SGS, Karachi and other inspection firms to provide professional, third party control and reports. (See Call Report 28/08.)

4. PSA will recommend approval to purchase DAP through local companies or the COP and reimburse any subsidies to put it on equal footing with project imports.

5. PSA will split the Spring 1991 shipment into several tests. It will continue with some official procurement and test several other alternatives.

FARM MACHINERY: TRACTORS AND ASSOCIATED FARM MACHINERY

1. Objective: Stimulate sales of agricultural machinery, related equipment, and spare parts to Afghanistan.

2. Current status of machinery imports: Not importing overseas machinery at this time.

3. Inland transportation: Machinery travels by truck from manufacturing centers in the Punjab to border depots.

4. Export to Afghanistan: Afghan traders purchase agricultural machinery for cash from Pakistani manufacturers and dealers at market prices. Project furnishes transportation rebate against delivery verification to approved destinations in rural Afghanistan. Project is developing a dealer network.

5. Marketing development: Project has identified several Afghan traders with potential to develop extensive dealer networks and maintenance facilities in target bazaars.

6. Status of privatization: DAI has identified both Afghan and Pakistani traders who are willing to undertake importation, transit, and sale of agricultural machinery into Afghanistan.

7. Financing objectives: Arrangement of domestic revolving credit lines, inland LCs, documentary collection, and banking services for clients.

Farm Machinery Transactions

Certain Afghan buyers have approached PSA to assist them purchase MF 240 tractors from Millat Tractors Ltd, Lahore. Haji Sattar, a trader-client from Quetta, is known by the Trade Center in Quetta and by Dr. Wakil, Senior Advisor. He is currently transporting fertilizer into Afghanistan under our Transportation Rebate Program. (See call report 2 Sept on Scott Eubanks).

Mr. Sattar has proposed buying 100 MF 240 tractors in lots of 20, taking delivery from our Trade Center every 20 days and extending credit to Afghan farmers. Mr. Sattar, the buyer, would put 50% down and pay the balance in 20 days. Each tractor and accessories cost approximately Rs.170,000 ($7,820) delivered in Peshawar or Quetta. PSA thinks Sattar is representative of other Afghan traders in farm machinery.

Sattar would undertake delivery from the Trade Center to approved destinations in Afghanistan and could verify Afghan delivery through the documentary certificate program now utilized for PSA rebates. Mr. Sattar is familiar with tractors and has a repair shop in Sarobi near the PSA bazaar.

Mr. Sattar sells to farmers in Afghanistan who come to him through word of mouth. They pay him 50% upfront, and Mr. Sattar collects the balance at the end of the crop year. He is effectively providing them up to nine month's credit.

Steps in Transaction

PSA will introduce Mr. Sattar to ANZ Grindlays and Habib Bank Ltd. Grindlays sees no problem in opening an inland letter of credit in favor of Millat Tractors against Sattar's down payment and with project backup. These banks also have branches in Quetta.

1. The bank opens an inland LC in favor of farm machinery dealer.

2. The bank might open a revolving line of credit to Mr. Sattar on the recommendation of PSA and perfecting security on Mr. Sattar's trucks. Mr. Sattar would deposit 50% of invoice price and put up his fleet of trucks as security.

3. Because trucks are mobile, and therefore poor security, the bank might require Sattar to keep compensating balances or require the project to put up a backup guarantee. The bank would issue inland LCs in favor of the farm machinery dealer. When the dealer ships, Sattar would pay balance at the Trade Center branch bank, receive documents, and take title to the tractors.

4. Mr. Sattar would repeat this 20 tractor/20 day cycle 10 times. At the end of the twenty cycles. If the average tractor costs him Rs.170,000 he will have paid Rs.17MM ($792,000) net of bank charges and would be holding receivables from farmers in the same amount.

Structure of the Transaction

1. Down payment of 50% by the buyer. This is deposited at PSA's local bank in Peshawar or Quetta.

2. Bank opens inland LC in favor of farm machinery dealer for 20 tractors, delivered in 20 days to specified trade center. All charges would be to the beneficiary (farm machinery dealer), who would customarily pass these along to the opening party (Afghan buyer).

3. By agreement, and as stipulated in the LC, when shipment of tractors arrives in Peshawar or Quetta, tractors are inspected, and an affidavit of inspection is presented at the bank with Sattar's down payment. The bank passes documents to Sattar.

4. The dealer releases tractors to Sattar against documents, the bank pays the dealer, and the cycle is complete.

Follow-through on Transaction

1. Use Haji Sattar's deal as a test case.

2. Contact Habib and ANZ Grindlays to discuss proposal. Draw up a general letter of understanding.

3. Introduce buyer to bank. Assist buyer work out details.

4. Clear the capacity of the project (USAID) to facilitate the deal by standing behind the Afghan buyer. This may require writing a standby off against the reflow account at HBL.

USING NON-CREDIT, FINANCIAL INTERVENTION BY PSA TO FACILITATE FARM MACHINERY SALES TO AFGHAN FARMERS.

Poulin (8/90) judges that for most agricultural inputs not presently being exported to Afghanistan by the private sector, direct purchase by the project is a critical first step to increasing exports. This arrangement would take the form of an advance payment to expedite an machinery order, followed by a purchase commitment for the machinery by an Afghan farmer or trader. The Afghan buyer would pay the balance on delivery. The transaction could either be handled in cash, or it could be facilitated by an inland letter of credit. In either case, the project would act as a broker or facilitating intermediary standing between the Afghan buyer and the machinery seller.

a. Cash Sales: Documentary Collection.

Even if the deal is made in cash, PSA agents can still help the Afghan buyer by using bank services, inspecting the machinery before it leaves the plant, and by requiring the farm machinery dealer to deliver to our depots near the border. This depends on the dealer's readiness to prepare a shipment on a down payment.

PSA would take a down payment (usually 50%) from the Afghan buyer (trader), and deposit it into a special account at their local bank. The order is then placed with the seller (machinery manufacturer or dealer). When the goods are ready to be shipped, the bank orders an inspection of the shipment from an inspection and control company. The inspection company's report is attached to the documents. The seller's bank sends a copy of the documents to the buyer's bank which in turn informs the Afghan buyer who deposits the balance into the Special Account at the Trade Center's branch bank.

When the machinery arrives at the Trade Center depot, the Afghan buyer pays the balance, takes title, and the buyer's bank pays the sellers bank to the account of the seller.

Since the buyer (our Afghan client) pays only a fractional down payment to order the goods, the project helps him conserve his working capital and perhaps motivates him to order in larger quantities. This would constitute a "forward purchase."

Because the goods are shipped across Pakistan to PSA, the Afghan buyer is able to avoid the various informal road duties which would be imposed upon him.

b. Inland Letter of Credit.

The purpose of a letter of credit is to protect buyers and sellers by linking shipments of goods, and payments for these goods, to conditions which are set forth in the letter of credit. These documents might specify inspection by a third party to verify that they conformed to the order, or they might specify insurance, specify locations for presentation, etc.

In the case of PSA, the objective is to substitute a letter of credit in place of the documentary collection if that were unacceptable to the machinery manufacturer. Here, PSA would take the order from the Afghan buyer, and instruct its local branch bank to issue a letter of credit in favor of the machinery seller in Lahore, Rawalpindi or elsewhere.

For letters of credit, a blocked, interest-bearing deposit would act as a margin or collateral for the bank to issue the LCs in an expedient fashion.

i. Sight Letter of Credit.

If the LC were a sight LC, the machinery seller would present documents at his local bank showing evidence he had shipped the goods, and collect his payment. Evidence might consist of an affidavit similar to the voucher used with transportation rebates showing the goods had arrived safely at their destination. The machinery seller's bank would then debit the account of the PSA Trade Center's bank, which in turn and by agreement, would debit the account of the buyer at the local Trade Center branch.

ii. Time or Usance Letter of Credit.

The machinery seller might be persuaded to accept a time ("usance") letter of credit or a banker's acceptance. These are terms for refinanced LCs. In this case, he would wait 60 to 90 days before presenting his draft for payment. It is the buyer's bank which is extending credit to the buyer, which then "confirms" the LC to the seller's bank. In this way, the seller knows that even if the buyer can not perform, he is looking at the credit of the buyer's bank, not the buyer, and has greater certainty he will be paid.

Perhaps the machinery seller would ask his bank to discount this letter at his bank to provide him working capital. The seller would add implicit interest rate charges to the price of the goods sold. Discounted LC are "acceptances". This would not effect the buyer or PSA's objectives.

iii. "Red Clause" Letter of Credit.

A machinery seller may request a down payment on the goods. Instead of just sending a draft to the seller in the case of a documentary collection requiring a down payment, a "Red Clause LC" would stipulate an advance payment. The balance would be paid to the seller when he presented documents for a sight LC or for a draft on a time letter of credit.

c. Leveraging Effect of Brokering.

If in time the project's bank were willing to issue letters of credit for amounts exceeding the balance in PSA's collateral deposit, this action would have the effect of multiplying the purchasing power of the project's Afghan clients. The bank might eventually entertain substituting letters of comfort from USAID as backups to complement the collateral deposit. The project would seek to negotiate these terms within the context of its overall relationship in the future.

ANZ Grindlays Bank, Peshawar is willing to consider time LCs on behalf of PSA, taking perhaps as little as a 10% cash margin.

d. Use of Lease-purchase for Farm Machinery.

Leasing has several features which are attractive to machinery buyers. First, operating leases allow a buyer to borrow off balance sheet. This means that periodic payments are disclosed on the income statement and do not effect his debt/equity ratio (unless a banker has the acumen to break this out). Secondly, operating leases often provide for service, obsolescence. Thirdly, to the lessor, they allow him to repossess the machinery in the case of default without having to resort to the courts. A fourth feature is attractive in islamic countries: lease payments avoid (explicit) interest charges as prohibited under islamic law.

Unfortunately, these features benefit neither lessee or lessor in the PSA strategy.

e. Import Letter of Credit.

An irrevocable, confirmed letter of credit is the standard instrument utilized in international trade for imports.

f. Terms and Conditions.

Grindlay's Bank, Peshawar, has furnished their standard terms and conditions which run through the end of 1990. This bank and others publish terms and conditions periodically which are usually competitive. These terms and conditions can be used as accurate data for input into analytical spreadsheet models.

AFGHAN AGRIBUSINESS ENVIRONMENT: A BANKER'S PERSPECTIVE

"Credit" is used below in its most general sense which at root means to believe. The PSA requested the following explanation to help plumb the minds of bankers with respect to the way they may think and react to risk. As such, the explanation attempts to define some of the risks from the point of view of a financial institution. This annex is not intended to reject or propose lending by the project, but may shed some light on how its banks may view financing propositions. It is written in the language of credit analysis.

Are credit risks a limiting factor in cross-border trade with Afghanistan?

The Afghan credit situation is substandard. Lenders define a "substandard" credit condition as a set of circumstances where borrowers are likely to have difficulty performing due to fluctuating or shrinking sales, deteriorating balance sheets, unmanageable and rising costs, secular decline in competitiveness, detrimental political and regulatory factors, and overall problems in business and industry. Where cash flow from operations is the primary source of loan repayment, cash flow is perceived as uncertain or declining. Where claims on assets are a secondary source of repayment, these assets are encumbered or otherwise difficult to convert to cash. Almost all these conditions are present with regard to Afghan agribusiness.

The agricultural sector of Afghanistan has suffered severe disruption for more than a decade due to war and civil strife. Agricultural production has been estimated to have been halved since 1979. With perhaps one-half of the population living as refugees, a large proportion of draught oxen slaughtered, irrigation systems and water sources destroyed, fields bombed and mined, the physical factors of production are seriously decimated. Agricultural services such as extensions have been discontinued and with young people growing up into warfare instead of farming, the knowledge and skills of agriculture have atrophied among the communities still on the land.

The business conditions are unencouraging. Prices for output fluctuate widely in Afghanistan depending on the time of year, transportation costs, quality of material, and specific area. The siege of Jalalabad by the Mujahideen in October 1988, closed the paved road between Peshawar and Kabul, stopping the longstanding trade which had traveled through the Khyber Pass. Inter-regional transport inside Afghanistan constitutes a major bottleneck to relief and resettlement. Cross-border commerce with Afghanistan has declined due to the costs and the degree of risk and difficulty. The direction of the future is unknown and expectations for near-term, general improvements are generally pessimistic.

Among the markets for Afghan produce, dried fruits and nuts, the Lower Gulf has been an important market. Trouble in that area due to Kuwait-Iraq Gulf Crisis has seriously disrupted business.

In climates of substandard credit rating, instability and uncertainty, credit terms contract or evaporate and risk premiums rise. The market tends to shorten credit terms or demand cash. Bankers seek to reduce their exposure (risk) to that market by securing loans with cash or near-cash.

Afghan merchants and traders report that terms of trade are generally cash or barter. Certain traders tell us they sell on terms of 50% down to buyers in Afghanistan with the balance due at the end of the crop season. This means they are extending credit of around nine months. That is very little on larger farm machinery which would normally be amortized over several years.

On the supply side, interviews among Pakistani machinery manufacturers selling to Afghans, reflect exclusively cash sales (or letter of credit). These machinery manufacturers, according to studies commissioned by the project, while wishing to expand their volume, nonetheless have no interest in using credit as a marketing tool.

<u>Effect of Credit Environment on Finance of Transit Trade.</u>

According to reports, Afghan banks are not issuing letters of credit without full 100% advance payment. Unofficial trade between Pakistan and Afghanistan, which has been estimated to exceed official trade 8:1, has been financed by the informal sector. Terms are in cash and exchange of rupees for Afghanis is handled in urban bazaars through the "Hundi" system, and for those persons not affiliated with the Kabul regime, or not having access to urban Hundi, by the Mujadideen. Traders can open letters of credit through foreign banks where they keep excess liquidity.

The Nathan Berger studies of August 1989 and June 1990 concluded that finance is not a constraint on the increase of cross-border trade. Poulin confirms in his August 1990 report that interviews with traders indicated that lack of access to formal sector credit is not a constraint to increased export of agricultural inputs to Afghanistan.

<u>Credit Guarantee Schemes</u>

Could project funds be used to guarantee loans to induce banks to lend to poorer farmers so that they can buy fertilizer, tractors and other inputs?

PREFACE

The purpose of the Financial Advisor's consultancy is defined in the Scope of Work below:

SCOPE OF WORK

The agribusiness financial advisor will identify financial instruments that the PSA can employ to support and increase trade with agricultural commodities between Afghanistan and Pakistan. Principal commodities of concern to ASSP/PSA are agricultural equipment manufactured in Pakistan. However, ASSP/PSA will also require information on credit and/or financial mechanisms to support the off-shore procurement of fertilizer and other potential agricultural inputs.

Specifically, the agribusiness financial advisor will be required to:

1. Survey the Pakistan banking and finance sector, as well as Pakistani purveyors of agricultural equipment and supplies to identify existing financial instruments available to Pakistani agribusiness concerns.

2. Determine which of those instruments identified would be appropriate for supporting ASSP/PSA objects and strategies.

3. In the absence of appropriate existing commercial and/or financial instruments, recommend ways that ASSP/PSA project funds can be used to underwrite commercial transactions between Pakistani suppliers and Afghan dealers.

4. Suggest guidelines for developing new, improved or expanded financial products and mechanisms for ASSP/PSA to use with Pakistani banks and/or agricultural equipment suppliers.

5. Provide guidance for ASSP/PSA on how to work within Pakistan's commercial laws and regulations in arranging the movement of commodities procured off-shore through Pakistan, or from Pakistani suppliers across the border to Afghanistan.

6. Establish the financial arrangement for the off-shore procurement and shipment into Afghanistan of fertilizer procured directly by Afghan merchants for sale in Afghanistan. Recommend how ASSP/PSA funds could be used to underwrite this procurement.

The agribusiness financial advisor will consult with the USAID/Pakistan mission private sector and agricultural staff in Islamabad during his assignment. The advisor will be required to

The purpose of a credit guarantee scheme is to expand credit to borrowers that would otherwise be rejected by lenders. The guarantee insures the lender against credit loss. Levitsky and Prasad (World Bank 1988) conclude that credit guarantee schemes tend to work (credit goes to borrowers who repay the loans), when the guarantee substitutes for collateral deficiencies. Guarantees do not work (borrowers default), when the guarantee attempts to overlook credit risk.

Risk, to a lender, is perceived as the compound probability of repayment, a function of willingness and capability. Willingness corresponds to "character" where the age-old dictum is "know your customer". Capability breaks down into capacity (size of operations, etc.), collateral, capital, and conditions. Bankers approach risk according to these "Five C's of Credit."

This means that the project should be cautious of entering into credit guarantee schemes when the reason is to induce the bank to lend to a target group that it considers a poor credit risk. Experience has shown that the bank will tend to view the guarantee as the prime source of repayment, not the cash flow from operations of the target client. The result is that the bank continues to perceive the client's class as substandard, the guarantor will watch his funds erode, and the target clients will not have truly broken into the formal credit market.

Adams, Steel and others of the "Ohio State School" of Rural Credit Markets point out that when the guarantee is used to backup preferential interest rates (cheap terms) to target buyers, the situation worsens for all parties. Besides the problems of using guarantees to cover substandard risks, concessional rates tend to divert loans to the richest and most influential.

PSA should reject credit guarantees to commercial banks for Afghan farmers for the above reason. Where the problem is one of collateral deficiency, such as backing up a letter of credit which is a self-liquidating transaction and where the goods are the prime collateral, it may be considered.

Accountability, Inspections and Auditing

Fertilizer is a restricted export in Pakistan because it is subsidized. If the project is facilitating export into Afghanistan, it must price fertilizer equivalent to the Pakistani price. If the price were greater than the Pakistani price, the traders would not buy from the project because it is commonly known that traders can buy what they please on the informal market. If the price were less than the Pakistani price, the fertilizer would tend to flow back across the border into Pakistan. The transportation rebate mitigates against both of these negative outcomes.

The rebate tends to lock the transporter into delivery to a specific, designated Afghan location. Serving as a documentary collection, the rebate provides the incentive for the trader to perform as agreed. His certification of delivery, stamped in Pakistan, is his receipt against which he claims payment for the transportation rebate. This assures the project that the fertilizer is delivered where it was intended and used as "humanitarian aid".

The project might retain the services of an independent inspection service to review the process of rebates and indicate ways to assure security such as a product movement and inventory control report. Use of this kind of service may comfort the GOP if confusion arose about "humanitarian aid" appearing as commerce. (See Call Report on SGS, p.42)

An inspection company can be contracted to certify quality on exported fruits and nuts originating from Afghanistan. This can be offered to potential importers overseas.

The project's local banks in Quetta and Peshawar might be able to relieve the project of administrative burden by taking over examining documents, and paying the transporter his rebate. Grindlay's has offered to do this.

Formula for Analyzing Price on Subsidized Commodities.

The purpose of the pricing model #1, "Income Statement Analysis", is to give analysts a tool to perform a rapid sensitivity analysis to see how changes in key variables affect trader margins. If DAP will only sell in Afghanistan within a certain price range, this model provides the project manager with information to assist him negotiate with buyers and sellers and USAID.

The value in the model depends on the accuracy of the variables.

The model was developed for fertilizer imports through the Port of Karachi, transported to a border depot in NWFP, and subsequently trucked across the border and sold. PSA can easily extrapolate this model to cover other commodities and inputs.

The project may invite staff to determine what they need so that consultants can build and adapt models. Building these models, and demonstrating how they are to be used, may be one of the sets of activities short-term consultants can contribute to the project.

CALL REPORTS (meeting reports)

C A L L   R E P O R T

DATE: 4 September 1990 10h30

SUBJECT: Grindlays Bank, Peshawar Branch

ATTENDING: Richard Rath, Manager

FROM: Cary Raditz

OBJECTIVE: Structure Fertilizer & Tractor Privatized Deals

Following our brief background discussions of August 25th and 01 September, Rath and I began moving toward a concrete agreement. He has already benefitted from knowledge of the project as Grindlays maintains a relationship with the project (handles project operational funds).

1. Fertilizer. Commercial possibilities are constrained by:

   a. DAI avoiding holding title to the fertilizer
   b. DAI desiring to disengage from financial and logistical responsibilities, i.e., privatize the fertilizer import into Afghanistan.
   c. Establish dealings that will be sound commercially over the long run; that will survive normalization of relations with Afghanistan.
   d. Establish ongoing relations between Afghan agribusinesses and suppliers.

After consulting Mr. Kasmi, his import specialist who identified DAP under Import Policy classification No.3122.6000, Rath seemed to think that the best course of action was to deal locally. He will research ways that the project can achieve its objectives under Pakistani regulations and within the context of common business practices. He thinks this can all be arranged in a straight-forward way. DAI will probably need to stay involved to the extent of adjusting prices and providing transportation rebates and perhaps the "humanitarian aid" blanket.

It is likely that ANZ Grindlays will require PSA to issue a collateralized guarantee against any letters of credit used in the transaction.

Rath will make introductions to reputable businessmen who have the capacity to undertake these transactions.

2. <u>Tractors</u>. We spoke of transactions proposed by Afghan buyers. Rath is prepared to meet with them and discuss credit possibilities. DAI will need to stand behind them if collateral is not accepted. Trucks make poor security pledges because they are mobile.

C A L L   R E P O R T

DATE: 10 September 1990

SUBJECT: ANZ Grindlays, Peshawar

ATTENDING: Richard Rath, Manager of Peshawar Branch

FROM: Cary Raditz, Financial Advisor

OBJECTIVE: Develop financing mechanisms

Rath and I have spoken on several occasions in the past few weeks. Before I went to Karachi on 26 August, we met for the first time at a ANZ Grindlays reception at the Pearl. At that function, I questioned him about inland letters of credit and documentary collections relative to farm machinery exports to Afghanistan. When I walked away from that reception, I knew we could arrive at some straight-forward solution even though we had not worked out details.

David Smith, Country Manager for ANZ Grindlays, invited RSmith, JSoden, and myself to lunch at the Pearl Sunday a week ago (02 Sept). Richard Rath was present and I shared what I'd discovered in Karachi and we made arrangements to speak further. Having the approval of David Smith made me feel comfortable about pressing through with larger transactions, even those involving imports. Smith made it clear that Rath had the ability, and authority, to negotiate.

On 04 September, I called upon Rath at the Peshawar ANZ Grindlays branch office. Richard brought in Mr. Kasmi, a banking officer, who was charged with figuring out ploys to move our fertilizer imports into Afghanistan through private business. Richard also said he would set up meetings with reputable businessmen capable of undertaking import and export transactions in the magnitudes envisioned.

This morning at 08h00, I dropped off part of my draft report dealing with some of these domestic banking issues and asked him for his comments.

Speaking to me later this morning, Richard said he had read over my report and thought there were ways to simplify procedures, and that he had already asked someone in his office to research the details. Richard then promised to deliver to me standard terms and conditions for a variety of banking services including letters of credit and documentary collections. This information is to be included in my final report.

ANZ Grindlays Karachi head office reports, according to Rath, that DAP was recently delivered at Port of Karachi for Rs.4,046/ton. If so, the bag price would be Rs.202 per 50kg bag. We are now trying to gather other quotes to confirm where that price might lie in a range. This figure, if substantiated, would indicate that the Rs.217 per bag official price equates to a landed-cost perhaps increased by average transportation cost. This would mean that the project would have much more freedom to develop marketing strategies than if it had to cover the Rs.300 per bag via Ronco.

At the request of JSoden, I asked Rath if he could set up a meeting with Pir Mohammad, someone he had recommended to John as a qualified trader. Wednesday, he said.

cc BHaskell DGarner
RSmith JSoden
files

CALL REPORT

DATE: 08 August 1990

SUBJECT: Mr. Morteza Farzaneh, Vice President
Private Banking, Bankers Trust Co., New York

FROM: Cary Raditz

OBJECT: Develop contacts re: PSA cross-border trade

Mr. Farzaneh travels regularly to Pakistan for business and speaks Urdu and Pharsee. He will be in Pakistan from August 21 to 27. His recommended contacts are listed below:

1. General Jehan Zeb tel: 762-30
   Former governor Sindh province

2. Colonel Md Sharif Khan tel: 756-70
   (son-in-law of Jehan Zeb?)

3. Sher Pao
   Chief Minister Peshawar

4. Commercial attache, American Embassy.

5. Mr. Barry Lawton, Duty Free Manager tel: 0296-26111
   Rothsman, Exports Ltd
   Oxford Road, Aylesbury, Bucks HP218SZ

Mr. Farzaneh identified several financial institutions involved in trade to Afghanistan.

1. Afghanistan National Credit and Finance Ltd
   New Roman House
   10 East Road, London N1GAD

   Tel: 251-4100 private: 337-5258

   Managing Director: Mr. Gho Lan Farmand
   Manager: Mr. Michael Catling

   Business: Trade--LCs, import/export; global operations. Typical LC 90 days; 000 to 000,000, requires confirmation of international bank, deposit on opening, payment against presentation of documents. Very liquid: Cash stood at L27MM 3/27/87.

Correspondents: $US & Sterling: Midland, Citibank, BCCI.
DM: Deuschbank, Munchen

2. Afghan American Trading Co. Inc.
122 West 30th Street
New York, NY 10001

Manager: Mr. Osman Antelingin

Business: Agents for Afghan buyers & sellers

3. Afghan National Bank
Peshawar

4. Afghan National Bank
204 Nagni Chambers 2nd Floor
40 West Wharf Road
Karachi 2

Business: Freight

Mr. Farzaneh's schedule:

8/15-17: Bombay, Taj
8/18-19: Delhi, Taj
8/20: Lahore
8/21-23: Karachi, Sheraton
8/24: Quetta, Serena
8/25-27: Karachi, Sheraton
8/28: Dubai

C A L L   R E P O R T

DATE: 4 September 1990

SUBJECT: Habib Bank Limited, NWFP

ATTENDING: Baz Muhammad Khan, Provincial Chief
Muhammad Afzal Khan, SVP & Circle Executive
Khusro Khan Afif, VP & Zonal Chief

FROM: Cary Raditz

OBJECTIVE: Discuss project's objectives w/re: Fertilizer and tractors to Afghanistan.

The meeting was held in Muhammad Afzal Khan's office. By happenstance, the gentlemen were already assembled for meeting. It was an obvious show of strength on the part of Habib. Mhd Afzal Khan and Baz Mhd Khan had met earlier with John Soden and discussed some of the aspects of PSA's program. Habib is holding two accounts on behalf of the project, a fertilizer account (reflows) and a seed account. (The fertilizer account is in excess of Rs.40MM and growing.)

We discussed both fertilizer and tractors and the objectives, boundaries and limitations of the program. He feels that the issue of passage as "humanitarian aid" may be the deal-breaker as this decision lies in the realm of USAID and the GOP.

Afzal Khan believes Pakistani business men can handle the whole transaction. He promised to introduce us tomorrow to someone who has been trading for over 40 years with Afghanistan and who would undertake the whole process.

Afzal Khan stated that buying the fertilizer locally might be the best answer if the project could reimburse GOP for the subsidy.

I promised that I would send over a brief write-up of the objectives, and the perceived limitations that would define the outlines of the possibilities.

C A L L R E P O R T

DATE: 27 August 1990

SUBJECT: Habib Bank Ltd, Head Office
International Division
Karachi

ATTENDING: Mr. S. Musheer Ahmed, Senior Vice President
Mr. Javed Iftekhar, Vice President
Mr. Nemat Ali, Vice President
Mr. Shabbir Ali Merchant, Executive Vice President

FROM: Cary Raditz, Financial Advisor

OBJECTIVE: Expand PSA relationship

The writer informed the international division that DAI has a depository relationship with Habib in excess of Rs.40 million. In general, the four men were very conservative and concerned that the transaction have all the blessings of the State Bank. Mr. Nemat Ali, from memory alone, quoted the name of Mr. Gulam Mohammad, Senior Deputy Director at the State Bank, 241-6668. The writer, however, declined to call immediately as the issue was still too vague to risk running up red flags at the State Bank.

submit a written report and provide an exit briefing to ASSP/PSA and O/AID Rep project officers prior to departing Pakistan.

This report begins with recommendations, starting with the most general, and concludes with the most specific and detailed. The sections on the structure of transactions in farm machinery and fertilizer are followed with annexes of background topics. Interviews, reports from meetings, and bibliography are meant to be practical references to aid project managers to follow up on the consultant's work.

I am very pleased with the kind reception and support project management provided me during this consultancy and I would like to express my gratitude to them, the rest of the staff, and the financial and business community who received me warmly.

Cary W. Raditz
14 September 1990
Peshawar

Cary Wingfield Raditz
Financial Advisor
Development Alternatives Inc.
Afghanistan Agricultural Sector Support Project
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Phone: 43219, 45307, 45407
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30 August 1990

Dr. M. Anwar Chaudhry
Technical Director
International Multi Foods Ltd.
604-610-1106-10 Kashif Centre
Sharah-e-Faisal, Karachi

tel: 522098, 523010, 522054
Fax: (021) 528010

Dear Dr. Chaudhry,

Thank you, Rukhsana Haider, and Arshad Ilyas for taking the time to meet with me this week. The purpose of our meetings was to discuss the proposed ideas mentioned by Mr. Amjat Rashid in his letters to Richard Smith of 23 August and 7 July, 1990. We discussed the intention behind DAI's request, the need to define concrete ways of achieving these objectives, and the financial implications.

As financial advisor to the project, I shared my understanding that DAI is less interested in consultant services than in finding agribusinesses which are willing and able to undertake trade with Afghanistan. We then reviewed ways that IMF acting as a private business rather than a contractor could replace DAI's involvement in importing ag inputs and farm equipment into Afghanistan, and acting as a principal in exporting agro products from Afghanistan.

In order to further the process of earlier discussions, it was agreed that DAI and IMF would address the following activities.

<u>Importing ag inputs into Afghanistan</u>.

1. IMF will investigate the question of IMF's ability to re-export fertilizer and chemicals to Afghanistan and be exonerated from duties.

2. IMF will seek to understand the opportunities and limitations available under Pakistani laws and regulations

which will affect their ability to broker agricultural inputs and equipment.

3. IMF will assemble the sequence of activities that would be performed in the importation of equipment or fertilizer into Pakistan as a private business. IMF will draw up a flow chart of the steps in opening an international letter of credit.

4. IMF has banking relations with Habib Bank Limited, Habib Bank AG Zurich, and American Express Bank. IMF has availability under a line of credit at AMEX which covers the opening and confirmation of letters of credit.

5. DAI will supply the anticipated amounts, specifications, and timetable of importation into Afghanistan.

6. DAI will seek ways of guaranteeing price floors in conditions where IMF would be exposed to loss due to market changes.

Exports of Afghan agro-products.

1. DAI will arrange meetings between local banks, local traders and IMF in Peshawar and Quetta.

2. IMF will discuss with traders measures they can use to increase demand and raise prices for Afghan agro-products. These measures include grading, fumigation against insects, and processing. IMF would provide training to traders in these technologies on a cost plus basis.

3. IMF has the processing technologies and facilities in Lahore, Suffur, and Karachi for dehydration of fruits and vegetables, their preparation and packing. Although IMF is not able to invest directly in Afghanistan at present, it is willing to consider investing in additional facilities in Pakistan for the processing of Afghan products such as licorice root and olives.

References. IMF's major clients have been AMEG and RONCO. In addition, IMF has been a direct supplier to the US Embassy. Furthermore, IMF offered "The Mercy Fund" (American NGO) and Mrs. Oakley (Ambassador Oakley's wife) as references.

Other notes. With regard to credit, in IMF's experience, the terms of trade along the border are almost exclusively cash.

IMF and the project will continue discussions to answer the above questions in view of formalizing an agreement in the future. Pursuant to Richard Smith's letter of 28 August, IMF

will wait for DAI to inform of the results of its study of high value cash crops.

Yours truly,

Cary W. Raditz

CALL REPORT

DATE: 19 August 1990

SUBJECT: John Soden, Admin & Finance, PSA Peshawar

FROM: Cary Raditz

OBJECTIVE: Discuss findings to date

John reports that he and Denny Freed called on four banks in Karachi during Denny's consultancy this summer.

1. Kirby L. Broderick
   Vice President and Country Manager
   tel: (92.21) 511732
   fax: (92.21) 523071

   Chase Manhattan Bank
   Shaheen Complex
   Karachi

2. S.M. Zaeem
   Chief Manager
   tel: 241.6950/2671
   telex: 2755 GB PK

   ANZ Grindlays's Bank
   I.I. Chundrigar Road
   Karachi

3. S. Musheer Ahmed
   Senior Vice President
   International Division
   tel: 239093; 219111/281

   Habib Bank Limited
   15 Habib Bank Plaza
   Karachi-21

4. Tanwir Ahmad
   Sr. Executive VP & Executive Committee
   tel: 2411595;219111

   Habib Bank Limited
   15 Habib Bank Plaza
   Karachi-21

5. C. Ahsan ul Hag
   Sr. Exec. VP & member of Executive Committee
   tel: 2413778;235516

   Habib Bank Limited
   15 Habib Bank Plaza
   Karachi-21

6. Mohd. Haroon Ahmed
   Sr. Exec. VP
   tel: 210402;210412

   Habib Bank AG Zurich
   Hirani Centre
   I.I. Chundrigar Road
   Karachi

The purpose of seeing these banks was to elicit their views on trade with Afghanistan and to determine their willingness to work with USAID on trade transactions.

They stated that there was no official trade with Afghanistan.

Habib Bank Limited (Musheer Ahmed, SVP) was most helpful, setting up calls with them and the Chamber of Commerce. John said that PSA holds balances in excess of Rs.40 million with Habib Bank Limited Peshawar Branch.

I told John that banks are very cordial institutions. Often, however, they will respond better when there is the structure of a relationship or a transaction on the table. In the case with Habib, a significant deposit is a strong foundation for a relationship.

We agreed that part of my job should be to educate the project staff. I said I would make it a point in my briefings and reports to deal with the mind of the banker.

C A L L   R E P O R T

DATE: 05 September 1990

SUBJECT: 1) Khare Ullah, transit merchants
2) Gul Faraz

ATTENDING: BHaskell, RKohistani, CRaditz

FROM: Cary Raditz, Financial Advisor

OBJECTIVE: Qualify traders sent by HBL

Mr. Ullah is a relative of Mr. Mhd. Afzal Khan, SVP of Habib Bank Ltd. His business card says "Cloth Merchant". Kohistani and I were both puzzled, as my discussion the previous day with HBL had focused on farm machinery.

Mr. Ullah was not exactly a loquacious man, but we were able to dig out that he has functioned as a forwarding agent. He was under the impression that transit trade was still open between Karachi and Peshawar. The communication was poor and it was sometimes difficult because he was unresponsive.

Ullah said that he could arrange clearing for fertilizer from port to a bonded warehouse in Peshawar or Quetta, could process all the documents, and arrange sales to Afghans. (This is not consistent with better sources of information.)

The next two traders--Gul Faraz and colleague, who declined to give us cards--have handled transit of shipments of wheat for CARE and AID, up to 40-50 tons/month. They seemed impressed with the results so far achieved by PSA in moving fertilizer and farm machinery across the border. If we can secure the necessary permits, they will undertake to manage the transit of fertilizer from Karachi to the PSA border depots.

JSoden should thank Afzal Khan for sending these gentlemen to call on us, but tell him that his choices were, regretfully, wide of the mark.

cc\ BHaskell, RKohistani, RSmith, JSoden

CALL REPORT

DATE: 27 August 1990

SUBJECT: Muslim Commercial Bank
Head office Karachi

ATTENDING: Mr. Ziaul Hasan Laj, Exec. Vice President
Mr. Fida Ali Sabz Ali, Senior Vice President

FROM: Cary Raditz

OBJECTIVE: Discuss PSA project in view of possible relationship

---

The writer met with Mr. Laj, on whom he had called in Karachi in 1985 and 1986 when he represented Chemical Bank New York. The gentlemen were mildly interested in the project, referring the writer to their branch offices in Peshawar and Quetta.

Peshawar: Mr. Mohammad Aleemuddin, Senior Executive Vice President, tel: 73675, 75017, 78121.

Quetta: Mr. Mohammad Aleem, Executive Vice President, tel: 70719, 74689.

Both men stressed the unstable conditions present in Afghanistan and the problems of doing business. With regard to financing fertilizer, they thought that the State Bank would be involved at every turn if the deal was "development assistance". If a private company, however, were importing fertilizer on behalf of private customers, its transaction might be straight forward. They mentioned several of their large customers in Karachi who might be interested. These names will need to be clarified with other contacts and the writer will make cold calls or seek to be introduced.

MCB gave the writer the 1989 annual report.

CALL REPORT

DATE: 4 September 1990

SUBJECT: Nasrullah Rahmat, Afghan entrepreneur

FROM: Cary Raditz

OBJECTIVE: Discuss Cross-border trade w/ Nasrullah

Nasrullah and I met briefly at the Pearl at lunch. He was on his way to Islamabad and was taking one final meeting with Afghan Relief and Rehabilitation where he serves on the board of directors. The officer from AR&R who came to pick up Nasrullah explained the project's design behind a UNDP program which would distribute seeds and fertilizer to poor in Afghanistan in an effort to encourage resettlement.

Nasrullah said that he had met yesterday afternoon with RSmith, DGarner, BHaskell and had breakfast with John Soden.

Nasrullah said that no matter how simple a project appears at inception, it turns out to be far more complicated than is conceived. His risks are equally complicated. UNDP, for example, in its heart-felt effort to help Afghans may be giving away grain and fertilizer for free. Free fertilizer ("nothing is free," he said) would be a risk to his sales in Afghanistan.

Once again, he stressed that things need to be put on a commercial basis that will have a chance of continuing into the future when DAI's project ends. The aim of the fertilizer and input transfers to Afghanistan are to regenerate agriculture and this must be kept in mind.

He will deliver a proposal in the next few days. On 11 Sept, he flies to Germany to attend leatherwear trade shows.

C A L L   R E P O R T

DATE: 29 August 1990

SUBJECT: Nasrullah Rahmat, Afghan entrepreneur

ATTENDING: Morteza Farzaneh, Regional Director, Private Banking Division, Bankers Trust Co, New York
David Smith, Country Manager, ANZ Grindlays, Karachi
Rahmat Kamran, Afghan leatherwear manufacturer, Karachi
Cary Raditz, Financial Advisor ASSP

FROM: Cary Raditz

OBJECTIVE: Discuss Cross-border trade w/ Nasrullah

Farzaneh arranged dinner on 28 August with the Kamran Brothers, Rahmat and Nas, with whom he has a banking relationship. They are leatherwear manufacturers who import hides from Afghanistan, manufacture garments in Pakistan, and export worldwide. Farzaneh vouched that there are no indications that the sources of their funds are tainted with drug money. Farzaneh explained that Bankers Trust was extremely careful in screening its clients and he in no way wished to get involved with any individual or company that was suspected of illegal dealings.

Over dinner, I described the project and its mission. At the conclusion of the meal, Rahmat asked if he could introduce me to his relative, Nasrullah. Farzaneh again vouched for him and we set up a meeting the next evening. Morteza claims that Nasrullah has the reputation of philanthropist among Afghans.

The next day, Wednesday 29 August, Farzaneh, Rahmat Kamran, Nasrullah and I met in the lobby of the Sheraton. (David Smith joined us later after we had discussed business.) Nasrullah declared that he already knew of DAI's mission and had in fact met with RSmith and JSoden on an earlier occasion.

We discussed DAI's goal of "privatizing" importation of fertilizer into Afghanistan. DAI wants to progressively turn the fertilizer importation over to private sector firms. Objectives to achieve are keeping DAI from taking title, and as much as possible, retreating logistically from the endeavor. The difficulties hinge on import licenses, sales of a restricted, subsidized product, and inventory risk.

Nasrullah thinks it would work for him to import fertilizer directly from the US or other countries where it would be cheaper and less costly to transport. He would do this by opening an

international, irrevocable letter of credit through a New York bank to a fertilizer dealer. Farzaneh said that Bankers Trust would be the opening and confirming bank. This ploy avoids the necessity of an import license from here, and bypasses foreign exchange controls because there is no conversion of Rupees to Dollars.

Although Nasrullah could take DAI/AID out of the official procurement, he said that the project would need to remain involved on several levels once the fertilizer arrived in Karachi. First, he would need the clearance to move it to the border. Clearance would be supplied by the project under its "humanitarian aid" protocol with Pakistan.

The transit permit under humanitarian aid would allow him to pass customs and to transport fertilizer to the border. Since DAI must price DAP at the official Pakistani price, DAI would need to compensate Nasrullah's company for the difference between this official price and the all-in cost for Nasrullah at the border. The simple way to handle this is to extrapolate from the rebate system--which seems to be working--and reimburse him based on an agreed on formula taking into account CIF invoice price, and adjusting for transport, bank fees, trade margins, etc. Reimbursing at the point of delivery, safeguards the project while Nasrullah is protected from risks of wide swings in official prices or a fall in available prices on the black market.

Comments.

1. The arrangement would over time introduce this trader to banks and fertilizer suppliers which would tend to persist after normalization of relations with Afghanistan.

2. The project could offer to arrange visits with Nasrullah and the commodity departments of major US banks, and the marketing divisions of American fertilizer distributors.

3. PSA might offer marketing training to Nasrullah's people in Afghanistan to increase volume of use.

4. On the export side, PSA could also help Nasrullah train his in-country people in grading and fumigating dried fruit.

GLOSSARY

ADT	Agricultural Development and Training Component of ASSP
Afghani	Unit of Afghan currency
AIG	Afghan Interim Government
ASSP	Afghanistan Agricultural Sector Support Project
BA	Bankers Acceptance, a refinanced LC which is a negotiable instrument held by banks or traded until maturity
BT	Bankers Trust Company
Berger	Louis Berger International Inc.
Call	A meeting or a business interaction with a client
Chase	The Chase Manhattan Bank
Chemical	Chemical Bank New York
DAI	Development Alternatives, Inc.
DC	Documentary Collection
EVP	Executive Vice President
GOA	Government of Afghanistan
GOP	Government of Pakistan
Grindlays	ANZ Grindlays Bank
HBAGZ	Habib Bank AG Zurich
HBL	Habib Bank Ltd.
LC	Letter of Credit
MCB	Muslim Commercial Bank
NGO	Nongovernmental organization
Nathan	Nathan Associates Inc.
NBP	National Bank of Pakistan
NWFP	North West Frontier Province
PPA	Programming, Planning and Analysis Component of ASSP
PSA	Private Sector Agribusiness Component of ASSP
Red Clause	A letter of credit which specifies an advance payment
SEVP	Senior Executive Vice President
SGS	Societe Generale de Surveillance
SVP	Senior Vice President
UBL	United Bank Limited

C A L L   R E P O R T

DATE: 2 September 1990

SUBJECT: Scott Eubanks

FROM: Cary Raditz

OBJECTIVE: Discuss business proposed by Afghan traders re: Haji Sattar

---

Haji Sattar, a trader-client from Quetta, is known by the Trade Center in Quetta and by Dr. Wakil. He is currently transporting fertilizer into Afghanistan under our Transportation Rebate Program.

Mr. Sattar has proposed buying 100 MF 240 tractors in lots of 20, taking delivery from our Trade Center every 20 days and extending credit to Afghan farmers. Mr. Sattar, the buyer, would put 50% down and pay the balance in 20 days. Each tractor and accessories cost approximately Rs.170,000 ($7,820) delivered in Peshawar or Quetta.

Sattar would undertake delivery from the Trade Center to approved destinations in Afghanistan and could verify Afghan delivery through the documentary certificate program now utilized for PSA rebates. Mr. Sattar is familiar with tractors and has a repair shop in Sang near the PSA bazaar.

Mr. Sattar sells to farmers that come to him through word of mouth. They pay him 50% upfront, and Mr. Sattar collects the balance at the end of the crop year. He is effectively providing them up to nine month's credit.

Financing.

1. PSA will introduce Mr. Sattar to one of our local banks (Habib Bank Ltd or ANZ Grindlays). These banks have branches in Quetta.

2. The bank opens an inland LC in favor of the farm machinery dealer.

   a. The bank might open a revolving line of credit to Mr. Sattar on the recommendation of PSA and explanation of the business. This would not engage PSA. Mr. Sattar would deposit 50% of the invoice price and put up his fleet of trucks as security.

   b. Because trucks are mobile, and therefore poor security, the bank might require Sattar to keep compensating

balances or require the project to put up a guarantee. The bank would issue inland LCs in favor of the farm machinery dealer. Sattar would pay the balance at the Trade Center branch bank, receive documents, and take title to the tractors.

3. Mr. Sattar would repeat this 20 tractor/20 day cycle 10 times. At the end of the twenty cycles. If the average tractor costs him Rs.170,000 he will have paid Rs.17MM ($792,000) net of bank charges and would be holding receivables from farmers in the same amount.

Structure of the transaction.

1. Down payment of 50% by the buyer. This is deposited at PSA's local bank.

2. Bank opens inland LC in favor of farm machinery dealer for 20 tractors, delivered in 20 days to specified trade center. All charges would be to the beneficiary (farm machinery dealer).

3. By agreement, and as stipulated in the LC, at arrival in Peshawar or Quetta, tractors are inspected, and an affidavit of inspection is presented at the bank with Sattar's down payment. The bank passes documents to Sattar.

4. The dealer releases tractors to Sattar against documents, the bank pays the dealer, and the cycle is complete.

Action.

1. Contact Habib and ANZ Grindlays to discuss the proposal. Draw up a general letter of understanding.

2. Introduce buyer to bank. Assist buyer in working out details.

3. Clear the capacity of the project to facilitate the deal by standing behind the Afghan buyer.

C A L L   R E P O R T

DATE: 28 August 1990

SUBJECT: Societe Generale de Surveillance (SGS), Karachi

ATTENDING: Mr. Olivier Braekeleer, Director

FROM: Cary Raditz

OBJECTIVE: Research import inspection & control services

Mr. Braekeleer has recently moved to Karachi due to SGS, Geneva, taking a majority stake in what had previously been a Pakistani-owned agency (F. A. Shah & Co.).

SGS is the world's largest control and inspection company, offering a wide range of quantity and quality checks and related technical services.

The services of SGS might be valuable to the project to monitor conformity to agreed transit shipment processes as PSA progressively privatizes the input trade to Afghanistan. Quantity and quality inspections, transportation in sealed trucks, and warehouse control would be areas where regular technical audits might strengthen ASSP's proposals to the GOP to extend humanitarian aid protocols to cover fertilizer shipments to Afghanistan.

As pointed out in Campbell's equipment manufacturer survey, buyers need to check quality before taking delivery. Inspection before shipping is another area where SGS type services would be required.

CALL REPORT

DATE: 28 August 1990

SUBJECT: United Bank Ltd, Head Office, Karachi

ATTENDING: Masood Khan, Senior Executive Vice President
International Division
Faiz Uddin, VP

FROM: Cary Raditz, Financial Advisor

OBJECTIVE: Discuss cross-border trade with Afghanistan

Masood Khan remembered me from my position as Relationship Manager for the Lower Gulf/Pakistan for Chemical Bank. He was curious to know what I was doing in Peshawar. I described the objectives of the project and the progress it had made so far.

In Peshawar, he gave us the name of Sardan Naq Nawaz, EVP, who was new to the NWFP. Also Sikandar Masoor Afif and Rafiq Khahak, who are senior officials at UBL. Ahmed Hayab Khan is the Zonal Head of 20 Peshawar Branches (Tel: 745-66).

In Quetta, PSA should call on M. Khalid Burani, the Regional Head (tel: 727-17, 755-15).

Masood Khan said that the bank could provide PSA with introductions to traders whom it could vouch for their financial condition. UBL has branches near the border which the project could use for documentary collections and letters of credit.

Khan said that he opened NBP's office in Peshawar in 1961 and was there until 1965. He stated that all the restricted goods were "just on paper. Traders in NWFP do whatever they please!" He advised us to look into local purchases of fertilizer and farm machinery before we went too far afield.

cc/ BHaskell
DGarner
RSmith
JSoden

INTERVIEWS

ORGANIZATION	NAME
ABN Bank Avari Plaza 242 Fatima Jinnah Road P.O. Box 4096 Karachi tel 524.226/7	Saqib Mukhtar, Deputy Manager
Afghan Relief and Rehabilitation Peshawar tel 42318; 42798; 44487	Nasrullah Rahmat, Board Member Shahmard Yawar, Engineer
ANZ Grindlays Bank P.O. Box 5556 I.I. Chundrigar Rd. Karachi 2 Tel:241.4131 241.6541	David R. Smith, General Manager
ANZ Grindlays Bank Peshawar Branch P.O. Box No. 18 35, Shahrah-e-Quaid-Azam Peshawar tel 75.146 72.646	Richard Rath, Manager
Bankers Trust Company International Private Banking Division 280 Park Avenue New York, NY 10017 tel 212 850-2204 fax 850-4338	Morteza Farzaneh, VP & Regional Manager
Banque Indosuez Muhammadi House I.I. Chundrigar Road P.O. Box 6942 Karachi 74000	Jacques Broquet, Manager Merchant Banking
The Chase Manhattan Bank Shaheen Complex P.O. Box 1161 Karachi tel 523.070/9 511.732	Sajjad Haider, VP Mohammad Hafizullah, VP

Organization	Contacts
Habib Bank AG Zurich Hirani Centre I.I. Chundrigar Rd. Karachi tel 210.402	Shaikh Ehsanuddin, SEVP
Habib Bank Ltd. International Division 15 Habib Bank Plaza Karachi 21 tel 239.093	S. Musheer Ahmed, SVP Javed Iftekhar, VP Nemat Ali, VP Shabbir Ali Merchant, EVP
Habib Bank Ltd. Provincial Headquarters Shaheen Foundation Bldg The Mall, Peshawar tel 78.583; 79.495	Baz Muhammad Khan, Provincial Chief Muhammad Afzal Khan, SVP and Circle Executive Khusro Khan Afif, VP & Zonal chief
Int'l Multi Foods Ltd. 6th floor, Kashif Center Sharah-e-Faisal Karachi tel 522.098; 523.010 522.054	Mrs. Rukhsana Haider, Mgr of Research & Development Dr. M. Anwar Chaudhry, Technical Director Arshad Ilyas, Financial Manager
Jargon Leather Fashions 37-11 Main Street Lower Level 82 Flushing, NY 11354 (718) 358-0722	Nas Kamran
Kamran (Private) Ltd C-178/2 P.E.C.H.S. Karachi 29 tel 442.233; 439.584	Rahmat Kamran
Muslim Commercial Bank Ltd Head Office, International Division 2nd Floor, Textile Plaza Dunnolly Road, Karachi 2 tel 241.6982; 241.4091	Ziaul Hasan Laj, EVP Fida Ali Sabz Ali, SVP
National Bank of Pakistan International Division Head Office Karachi tel 241.9773; 241.6781	N. B. Soomro, SVP
Nasrullah Rahmat Afghan Manufacturer and Trader Telex 23383 Rahmat Pk Fax 241.8617	Nasrullah Rahmat

Organization	Contact
Royal Insurance Public Limited Company 8th Floor, Shaheen Complex Mr. R. Kayani Road Karachi tel 525.141/45	Dr. Mumtaz A. Hashmi, Manager for Pakistan M. Saleem Farooqi, Mgr. Underwriting
Societe Generale de Surveillance (SGS) 190 A/1, Block 2 PECHS, Karachi 75400 fax 92 21 438.824	Olivier Braekeleer, Country Director
Societe Generale de Surveillance Economic Affairs Division Place des Alpes 1 P.O. Box 898 CH-1211 Geneva 1 tel 41 22 739.9111 fax 731.3396	Fred J. Herren, Vice President
Surgul Afghan Trader & Agriculturalist c/o PSA Peshawar	Surgul
Transit & Freight Forwarders c/o PSA Peshawar	1) Khare Ullah, transit merchant 2) Gul Faraz
United Bank Ltd International Division Head Office Karachi tel 241.1635	M. Masood Khan, SEVP Faiz Uddin, VP
USAID, Office of the Representative for Afghanistan US Embassy, Islamabad	Phil Church, Project Manager ASSP

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9. Husain, Tariq, Loosely Connected Notes with a Useful Attachment (Working Draft), ASSP Peshawar, 4 August 1990.

10. Levitsky, Joseph and Prasad, Credit Guarantee Programs, The World Bank, 1988.

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12. Nathan Associates and Louis Berger International, Inc., (Final Report) Profile of Private Sector Cross-Border Trade Between Afghanistan and Pakistan, August 1989.

13. Poulin, Roger, (Draft) Private Sector Agribusiness Support, ASSP Peshawar, August 1990.

M E M O S A N D L E T T E R S

1. Millat Tractors Limited, letter to Scott Eubanks, 08 February 1990, regarding "Supply of Massey Ferguson Tractors".

2. Scott Eubanks, memo to files, 23 August 1990, regarding Millat Tractors Limited, lease-purchase and credit rejection.

3. Nasrullah Rahmat, Rahmat Leather Industries (Private) Limited, letter to Richard Smith, 10 Sept 90.

#	Item	Value	Item	Value
1	MARGIN ANALYSIS: INPUT STRATEGY		DATE: 12-Sep-9[illegible]	
2				
3	CIF PRICE/TON	$4,046		
4	NO. TONS	15,000		
5	BAGS/TON	20		
6	COST-BAG	$202		
7	FINANCE COST 1	0.004		
8	WAREHOUSING	$30,000		
9	MONTHS W'HOUSE	2	W'HOUSE FEE	$10
10	LABOR-BAG	$1	DAYS IN PORT	30
11	INSPECTION	$4	BAGGING	$10
12	COST2/TON\KM	$2.50	COST/TON/KM	$0.45
13	DISTANCE KM	1000	NO. OF KM	1.750
14	OFFICAL PAK PRICE	$217	AFGH : RUPEE	23.00
15	SALE PRICE/BAG	$300	RUPEE : $	21.74
16	AFGHANIS PER BAG	6,900	NET MARGIN	-31.3%

EFFECT OF CHANGES IN SALES PRICES ON NET INCOME

PRICE PER BAG	+NET INCOME	+NET MARGIN
$250	(43,165,260)	-57.6%
$275	(35,665,260)	-43.2%
$300	(28,165,260)	-31.3%
$325	(20.665,260)	-21.2%
$350	(13,165,260)	-12.5%
$375	(5,665,260)	-5.0%
$400	1,834,740	1.5%
$425	9,334,740	7.3%
$450	16,834,740	12.5%
$475	24,334,740	17.1%

#	MARGINAL ANALYSIS: NWFP			% MARGINS	$ VALUE (mm)	RUPEE @ SACK
17						
19						
20	COST DAP CIF	$60,690,000		67.4%	2.792	$202
21	TRADE FINANCE	$242,760		0.3%	0.011	$1
22	COST GOODS SOLD		$60,932,760	67.7%	2.803	$203
23						
24	LANDED COST		$60,932,760	67.7%	2.803	$203
25	PORT W'HOUSE	$4,500,000		5.0%	0.207	$15
26	BAGGING	$3,000,000		3.3%	0.138	$10
27	PORT COSTS		$7,500,000	8.3%	0.345	$25
28						
29	OUT PORT COST		$68,432,760	76.0%	3.148	$228
30	TRANSPORT	$11,812,500	$11,812,500	13.1%	0.543	$39
31						
32	COST CIF NWFP BORDER		$80,245,260	89.2%	3.691	$267
33	WAREHOUSE	$60,000		0.1%	0.003	$0
34	LABOR	$300,000		0.3%	0.014	$1
35	INSPECTION	$60,000		0.1%	0.003	$0
36	DEPOT COST		$420,000	0.5%	0.019	$1
37						
38	OUT DEPOT COST		$80,665,260	89.6%	3.710	$269
39	TRANSIT-AFGHAN	$37,500,000	$37,500,000	41.7%	1.725	$125
40						
41	LANDED AFGH COST		$118,165,260	131.3%	5.435	$394
42						
43	GROSS SALES		$90,000,000	100.0%	4.140	$300
44						
45	NET INCOME		($28,165,260)	-31.3%	(1.296)	($94)
46						
47	COST TO PROJECT					
48						
49	OUT DEPOT COST		$80,665,260	89.6%	3.710	$269
50	TRANSIT-AFGHAN	$37,500,000		41.7%	1.725	$125
51	PRICE ADJUSTMT	$15,565,260		17.3%	0.716	$52
52	TRADER PURCHASE	($65,100,000)		-72.3%	(2.994)	($217)
53	ADJUSTMENTS		$53,065,260			$177
54						
55	TOTAL COST (PSA)		$133,730,520	148.6%	6.151	$446

RECOMMENDATIONS

1. General Comment. Project management confront a difficult challenge prioritizing the sometimes conflicting themes of the project. From a financial viewpoint, the problem hinges on reconciling the intention to reconstruct agricultural production with the desire to privatize the operations which have served to move resources, inputs, and farm machinery into areas which are politically desirable.

2. Project management needs to choose their entrepreneurial partners with care. Management must balance character with capability. The size and urgency of the need to reconstruct agriculture in Afghanistan tends to prescribe a systems approach to finance, that can quickly build volume in transactions. It is recommended, however, that management move with caution, work with its bankers and knowledgeable contacts, and develop a number of test cases to derive principles of simple financial mechanisms.

3. A useful comparison of costs between one type of transaction versus another could be conducted on a spreadsheet. Each deal can be viewed from several angles. The most immediate concern is the most cost effective method for the project. Secondarily, which method is the most advantageous for the entrepreneur. The current situation, where the project intervenes logistically and financially in all aspects of the transaction, is nevertheless acknowledged as effective. The current situation then can be used as a base case for comparison.

4. Project management should develop test cases in facilitating the financing of fertilizer and other inputs, farm machinery, and promoting Afghan ag-exports. The ideal test situation is to find entrepreneurs who share characteristics with other potential businessmen, who have the resources and wherewithal to succeed in rapidly establishing a distribution network in Afghanistan, and who are uncontaminated by drug dealings.

5. Because investment in ag-inputs is a seasonal decision for a farmer, and timing is all important, test-case entrepreneurs should be identified as early as possible and followed up on so that privatization can begin without interrupting the growing stream of resources to the target areas.

6. Complexity versus simplicity. The larger the number of activities or decision makers, the greater the cost and the lower the expected value. The requirements of control mandated by USAID regulations and by the necessity to

contain corruption, are a built in cost that must be absorbed by the project.

7. To enable financial intermediaries to put together buyers and sellers, the project will certainly need to stand behind many deals. The Reflow Account currently on deposit at Habib Bank Ltd could be used prudently as a backup. (See Annex on "Credit Guarantees".)

8. Studies are showing that credit to traders is not a constraint to increasing cross-border flows. Farmer cash flow in Afghanistan, however, may be a real, limiting factor to their increased investment in farm machinery and inputs. Traders fear that humanitarian grants of fertilizer may compete against their imports and dampen the market in Afghanistan.

9. The purchase of inputs in Afghanistan is an investment decision which is tied to the export of agro-products. Traders in Pakistan are currently buying agro products from Afghanistan. Dried fruits and nuts are being exported through Pakistan to India, the Gulf, England and Germany, and to the USSR. Improving the quality of dried fruit through grading and fumigation will improve export potential and price. (See letter to Int'l Multi Foods,p30)

10. Project management should pursue negotiations with Nasrullah Rahmat with respect to importing and privatizing DAP fertilizer. At the same time, the project should endeavor to find other reputable traders. These traders should be checked through available channels including the international banks to verify their character and capacity.

11. Local banks can be a good resource for business contacts. Their selections, however, should be scrutinized carefully by the project. Sometimes, bankers perceive our requests for contacts as opportunities to promote vested interests. The relationship manager at the project should be very frank with bank managers and demand quality. These banks have the potential to vouch for the credit worthiness and character of local traders and businessmen if they know it will further the relationship. (Credit Guarantee Schemes, p19)

12. Farm machinery exports to Afghanistan can involve many, small and medium-sized entrepreneurs acting as "distributors", transporting machinery and selling it on compressed credit terms to farmers. Fertilizer imports into Afghanistan, however, require larger scale and greater business concentration unless a general waiver of prohibitions can be secured from the GOP to permit local purchase of fertilizer in Pakistan (with a subsidy reimbursement arrangement to the GOP).

13. Although the administrative duties of the project's Financial and Administrative Officer, John Soden, are overwhelming, his finance, law, and business experience would greatly contribute to the breakthroughs needed on the project to propel its next round of agribusiness activities to a new level. He should be given additional assistance immediately to free him to draft an agreement with the GOP to extend blanket coverage of "humanitarian aid" provisions to cover private sector trade of fertilizer and other restricted ag-inputs to Afghanistan.

14. Marketing of farm machinery is already on the move. From May 15 to September 01, 1990, PSA moved 149 threshers, 51 water pumps, and 109 tractors into rural Afghanistan. The rebates amounted to 14% of the sales price during that period, which could be viewed as the cost of building a market share.

    The next step in farm machinery privatization is to introduce a qualified and willing trader to a qualified and willing bank. Richard Rath at ANZ Grindlays is ready to meet with Haji Sattar (100 tractors). (See Call Report, p.22)

15. At the Farm Trade Shows, banks should be invited to set up booths. To make this effective, the project should invite local bankers to workshop presentations in Peshawar and Quetta which would explain the objectives of the project and the financial products and services demanded.

16. PSA should continue with its marketing efforts, furnishing importers in Europe and the States with prices and quality of goods available, fielding inquiries and passing requests to local merchants. International financing is available within the trading community.

17. The project should use and refine the spreadsheet marginal pricing model developed by the Financial Advisor to analyze the sensitivity of cost margins in the NWFP fertilizer import scheme to changes in key variables. This model should be adapted for Quetta and to other inputs.

18. The pricing model is only as good as the accuracy of the numbers. Project management should engage GIC to research the costs of the variables to improve the quality of the model.

19. The Financial Advisor introduced Quicken3 accounting software to the computer room. This software is very user friendly and is extremely well designed for building budgets and compiling budget reports. The various components can compile their separate budgets which can be aggregated

easily by a relative novice. The advantage of using commercial software over programming it in-house is the documentation and service available, and in the case of Quicken, the simplicity in collecting the data and analyzing it.

20. Aside from software applications, the project should acquire publications such as Using Lotus 1-2-3, and Using WordPerfect 5.1 which have much easier to access instructions than the documentation which accompanies the software.

21. Local banks and their head offices in Karachi (and overseas) can assist ASSP in many, non-financial ways. Confirming airline reservations at the last moment is a way banks can show their influence. The Financial Advisor might still be in Karachi if it were not for the kind assistance of Muslim Commercial Bank.

GENERAL CONSIDERATIONS IN STRUCTURING PSA FINANCE

This section lists important factors which shape the structure and possibilities of financing alternatives for PSA. The sections following, "DAP Fertilizer: Privatization of Fertilizer Imports to Afghanistan", and "Farm Machinery: Tractors and Associated Farm Machinery" also begin with lists of specific parameters which determine strategy. PSA has shared these lists with its bankers.

1. Timing: Use of farm inputs is an investment decision by Afghan farmers which depends on crop seasons. The purpose of the project is both to regenerate agricultural productivity and to stimulate agribusiness in Afghanistan. Between the two objectives, maintaining the flow of farm inputs to Afghanistan should be given priority over developing private sector initiatives.

2. Long term sustainability: Management of agribusiness after the end of project will depend on the capacity of the various parties. Consequently, consideration should be given to reputable agribusiness partners who have resources and strong connections both in Afghanistan and in other countries, particularly Pakistan.

3. Cost: During the project lifetime, the benchmark case is the current cost of operations where PSA performs purchasing and logistics. Other alternatives can be compared against this base case. By cutting costs, and by simplifying logistics, the project is moving in a private sector direction.

4. Logistics: The cost of complexity is the reduction in the compound probability of the expected value of results. Simplicity of operations should be given a high priority.

DAP FERTILIZER:
PRIVATIZATION OF FERTILIZER IMPORTS TO AFGHANISTAN

1. Objective: PSA disengages financially and logistically from provision of DAP to rural Afghanistan target areas. The export business in fertilizer that Development Alternatives, Inc. (DAI) has developed would be effectively privatized.

2. Current status of DAP import: US procurement, shipped on US flag vessel, USAID commodity regulations applying.

3. Inland transportation: Fertilizer travels by truck to Quetta and Peshawar under official protocol.

4. Export to Afghanistan: Humanitarian aid protocols with Government of Pakistan permit fertilizer export to Afghanistan under "humanitarian aid." Afghan traders purchase fertilizer for cash from PSA project at the official Pakistan price. Project furnishes transportation rebates against delivery verification to approved destinations in rural Afghanistan.

5. Status of privatization: DAI has identified both Afghan and Pakistani traders who are willing to undertake importation, transit, and sale of fertilizer into Afghanistan given above-mentioned incentives and coverage.

6. Financing objectives: Arrangement of international, irrevocable confirmed LCs, inland LCs, documentary collection, and banking services for clients.

PSA and the Financial Advisor have discussed privatization of fertilizer imports with International Multi Foods and Nasrullah Rahmat. (See call reports p25ff.)

International Multi Foods (IMF)

The project has discussed various proposals with Amjat Rashid, the owner, and his managers. IMF appears well placed to contribute to improving the export quality of dried fruits and nuts from Afghanistan but lacks an Afghanistan network. It is a drawback that IMF can neither operate in Afghanistan nor make direct investments in plant and operations. Relative to fertilizer, IMF is looking into import possibilities and regulations. They have a line of credit in the mid seven figures with American Express bank for the opening and confirmation of letters of credit. Utilization is unknown. They see major constraints in inland transit of fertilizer across Pakistan to the border, and risk of price instability.

Financing Cross-Border Trade

Reconstructing Agriculture and Agribusiness in Afghanistan



AGRICULTURAL SECTOR SUPPORT PROJECT
PRIVATE SECTOR AGRIBUSINESS

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Prepared by Cary W. Raditz for Development Alternatives Inc., and the office of the USAID Representative to Afghanistan under Contract Number 306-0204-C-00-9829-00.

Peshawar, Pakistan

September 1990



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PESHAWAR, PAKISTAN SEPTEMBER 1990

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